Cyprus and Malta

Tiny Nations to Join the European Union

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The Mediterranean island nations of Cyprus and Malta, both poised to join the European Union in 2004, have undergone significant economic and structural changes in recent years to prepare for EU membership.

Cyprus

Full membership in the European Union remains one of the government's foremost political and economic policy objectives. As evidence of Cyprus's commitment to harmonize its economy with that of the European Union, Cyprus was one of the first candidate countries to close out all 29 chapters of its accession agreement. Structural reforms already have transformed Cyprus's economic landscape. For instance, trade and interest rates have been liberalized. Price controls, as well as investment restrictions for EU residents, have been lifted. Also, private financing has been introduced for the construction and operation of infrastructure projects.

However, Cyprus still has challenges to overcome. Most crucially, the island's political division presents the greatest challenge to EU accession. Economic reforms, such as liberalizing utilities markets (including telecommunications and power generation), restructuring state subsidies, and abolishing restrictions on land ownership by non-residents, have yet to be completed.

The best prospects for U.S. products and services in Cyprus lie predominantly with government and quasi-government tenders, in areas such as telecommunications equipment, coastal radar and air traffic control systems, medical equipment, computer services, and municipal infrastructure construction. Further, the private sector's growing demand for U.S.-made office machines, computer software, and data processing equipment, in addition to U.S. food franchises' recent successes with expansion in Cyprus, also represent export and investment opportunities for American firms.

Malta

While Malta has had an association agreement with the European Union for more than 20 years, its EU accession process has seen its share of controversy. The Nationalist Party-led government initiated Malta's accession application in 1990. However, the Labor government froze the membership request in October 1996, only to see the Nationalist Party immediately resubmit it after winning re-election in September 1998.

Trade occupies a growing share of Malta's GDP. While the European Union is Malta's major trading partner, accounting for around 65 percent of imports and about 48 percent of exports, trade with the United States has grown significantly in recent years. Official figures indicate a fivefold increase since 1992, with U.S. exports to Malta in 2001 reaching $259 million. However, trade in U.S. goods is actually underreported, since many American products are sold through companies' European subsidiaries. Tourism accounts for about 40 percent of Malta's GDP, and it generates roughly $650 million in foreign exchange earnings.

Malta's chances for post-accession economic success hinge on the country's continued economic restructuring—including privatizing its state-owned enterprises—to ensure its attractiveness to foreign investors. Leading sectors for U.S. companies include tourism infrastructure, computer software, communications services, and medical equipment.